

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, July 16, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. James Jenkins, Chairman, Arizona State Retirement System Board called the meeting to order at 9:03 A.M., M.S.T.

The meeting was teleconferenced to the ASRS office, 7600 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Mr. James Jenkins, Chairman
Dr. Chuck Essigs, Vice Chairman
Mr. Alan Maguire
Mr. Norman Miller
Mr. Ray Rottas

Excused: Mr. David Borg
Mr. Jim Bruner
Dr. Merlin DuVal
Mr. Karl Polen

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the June 11, 1999 Meeting of the Arizona State Retirement System Board.

Motion: Mr. Norman Miller moved to approve the minutes of the June 11, 1999 regular meeting of the ASRS Board.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Mr. Norman Miller moved that the ASRS Board approve the Summary Report of Retirements, Refunds, and Death Benefits; System Transfers; and Applications and Agreements between Employers and the Arizona State Retirement System.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

4. Board Hearing and Action by the Board Regarding the Request for Hearing of Mr. Larry J. Hansen.

The Board reviewed the request of Mr. Larry J. Hansen regarding his current annual compensation as the basis for payment of cost of receiving credited service in the ASRS, which he earned initially with another public employee retirement system, in view of Mr. Hansen's status as a totally disabled member of the ASRS.

Discussion with Mr. Hansen and Mr. Fred Stork, Assistant Attorney General representing the ASRS, regarding the nature of Mr. Hansen's situation resulted in the following motion:

Motion: Mr. Norman Miller moved that Mr. Larry J. Hansen's current annual compensation under A.R.S. § 38-743, as the basis for his payment of the cost of receiving credited service in the ASRS that he earned with another public employee retirement system, is \$39,111.00, calculated as 12 times Mr. Hansen's monthly salary of \$3,259.25 that he was receiving at April 14, 1994, the date that he ceased working as a result of becoming totally disabled.

Mr. Alan Maguire seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

Comment: Mr. Maguire requested the ASRS Staff to further meet with Mr. Hansen to accommodate payments to the ASRS for the cost of the service credit.

Note: The order of the agenda items was changed in accommodation of Board members' schedules.

5. Presentation, Discussion and Appropriate Action Regarding the Extension of Investment Manager Contracts and the Extension of the Real Estate Consultant Contract.

Mr. Alan Maguire reported to the Board that the Investment Review Board Committee met on July 6, 1999, to discuss the proposed extension of the Investment Manager and Real Estate Consultant contracts.

Mr. Maguire stated that the purpose of the extension is to facilitate the continuation of the Request for Proposal (RFP) process and should not be interpreted by the various firms as superceding the ongoing RFP process.

Motion: Mr. Alan Maguire moved to approve the extension, for a period of one year, of the following Investment Manager contracts and Real Estate Consultant contract, which are due to expire:

Mellon Equity	Large Cap Active Equity
Dimensional Fund Advisor	Small Cap Active Equity
Mellon Capital	Small Cap Passive Equity
Brandywine	Small Cap Active Equity
Axe-Houghton	Small Cap Passive Equity
BGI	Large Cap Passive Equity
BGI	Tactical Asset Allocation
J.P. Morgan	Large Cap Active Equity
Bank One	Arizona Whole Mortgage and Real Estate Portfolio
Duff & Phelps	Zero Coupon Bond Management
BGI	Passive EAFE Equity
Bank of Ireland	International Active Equity
Brandes	International Active Equity
Capital Guardian	International Active Equity
Ernst & Young Kenneth Leventhal	Real Estate Consultant

Mr. Norman Miller seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding an ASRS Fund Investment Rebalancing Methodology.

Mr. Alan Maguire reported to the Board that the Investment Review Committee met on July 6, 1999, to discuss the proposed ASRS fund rebalancing methodology.

Motion: Mr. Alan Maguire moved to approve the ASRS fund rebalancing methodology as described in the presented memorandum dated June 29, 1999, and as itemized in the section titled "Possible Replacement Methodology."

Mr. Norman Miller seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the Renewal of the Long Term Disability Contract.

Dr. Chuck Essigs reported to the Board that the LTD/Health Insurance Board Committee met to discuss the second year renewal of the five year Long Term Disability Contract.

Motion: Dr. Chuck Essigs moved to approve the award of the Long Term Disability Contract to Fortis for the second year.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding Approval of the Year 2000 Health Insurance Renewals.

Dr. Chuck Essigs reported to the Board that the LTD/Health Insurance Board Committee met to discuss the Year 2000 Health Insurance Renewals.

Mr. Bill Cohee presented contract renewal information for ASRS Retiree Health Insurance Program. Medical and dental insurance providers include Blue Cross and Blue Shield, PacifiCare, Intergruop, Unitedhealthcare, Premier Healthcare, Delta Dental, and United Dental.

Motion: Dr. Chuck Essigs moved to approve the Year 2000 Health Insurance renewals for the fifth and final year of their current contracts.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

Mr. Norman Miller was excused at 9:53 a.m.

9. Presentation, Discussion and Appropriate Action Regarding the Calculation Methodology of the ASRS Excess Earnings COLA, and How It Is Related to Excess Earnings, Accumulated Excess Earnings, Fund Valuation, and Fund Surplus.

Mr. Michael Carter of Watson Wyatt Worldwide reported to the Board that the size of the COLA is a function of rate of return based on actuarial assets, not market assets. Mr. Carter also stated that the dollar amount of total excess earnings in any year is a function of the size of actuarial assets, not the size of the actuarial liabilities. Therefore, the Plan's funded status does not mean the Plan can earn less over a long period of time in order to support the Excess Earnings COLA.

Mr. Carter suggested to the Board the COLA Versus Excess Earnings and the Actual COLA Increases calculations be included in the 1999 and future valuation reports for historical value. Mr. Alan Maguire requested that both the COLA Before Constraints and the Actual COLA Percentage calculations be referred to as "average."

10. Director's Report

Because of time constraints, Mr. LeRoy Gilbertson requested the on-line presentation of the ASRS website be postponed.

Mr. Gilbertson stated that a presentation would be given at either the August or September 1999, Board meeting relating to the errors and omissions insurance summary.

Mr. Norman Miller returned to the meeting at 11:10 a.m.

11. Board Hearing and Action by the Board Regarding the Request for Hearing of Mr. Donald E. Rider Continued from April 16, 1999.

The Board reviewed the request of Mr. Donald Rider regarding rescinding his retirement and applying for LTD benefit payments.

Discussion with Mr. Rider, Mr. Fred Stork, Assistant Attorney General representing the ASRS, and Mr. Barry O'Dowd representing Fortis via teleconference regarding the nature of Mr. Rider's situation resulted in the following:

Mr. Stork reported that Mr. Rider appeared before the Board at the April 16, 1999, meeting to request that the Board consider allowing Mr. Rider to rescind his retirement and apply for LTD benefit payments based on his condition at the time that he terminated his employment. The Board requested at that time that Fortis undertake an evaluation of Mr. Rider's situation to determine whether he would have been eligible for LTD benefit payments at the time he terminated his employment and went into retirement status. Mr. Stork pointed out that from the Fortis report dated July 6, 1999, Mr. Rider in fact was totally disabled at the time he terminated his employment and entered retirement status, and would have been eligible to receive LTD benefits.

Mr. Norman Miller questioned if Mr. Rider has the ability to return to the ASRS the retirement funds received by him. Mr. Rider reported to the Board that he would be able to repay the retirement funds to the ASRS.

Motion: Mr. Alan Maguire moved that the Board find that Mr. Donald Rider, at the time he terminated his employment on December 14, 1997 and retired on December 15, 1997, was unbeknownst to him, totally disabled and eligible for benefits under the LTD Program.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

Comment: Because of Donald Rider's lack of knowledge about his condition he made a mistake in electing to retire on December 15, 1997, and therefore, his retirement shall be rescinded retroactively to December 15, 1997. Donald Rider shall return to the ASRS all retirement benefits that he has received. Upon the rescission of Donald Rider's retirement, he shall receive retroactively to June 13, 1998 long-term disability benefit payments for as long as he is entitled under the LTD Program to receive benefit payments.

12. Executive Session Regarding the Discussion and Consideration of the Appointment of a Deputy Director for External Operations.

The Board postponed convening to Executive Session to discuss and consider the appointment of a Deputy Director for External Operations until a later date when more members are present.

13. Presentation, Discussion and Appropriate Action Regarding the Appointment of a Deputy Director for External Operations.

The Board postponed the appointment of a Deputy Director for External Operations until a later date when more members are present.

14. Board Requests for Agenda Items.

There were no requests for agenda items.

15. Call to the Public.

Mr. Bill Peltier of the Tucson public commented on the Retirement Newsletter relating to the article on the ASRS website.

Mr. Donald Rider thanked the Board for their consideration of his appeal and for the Board's decision.

16. The next ASRS Board meeting is scheduled for Friday, August 20, 1999 at 9:00 a.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012.

17. Adjournment of the ASRS Board.

Mr. James Jenkins, Chairman adjourned the July 16, 1999 meeting of the ASRS Board at 11:22 a.m.

Respectfully submitted,

Jalene Trivino, Secretary Date

LeRoy Gilbertson, Director Date